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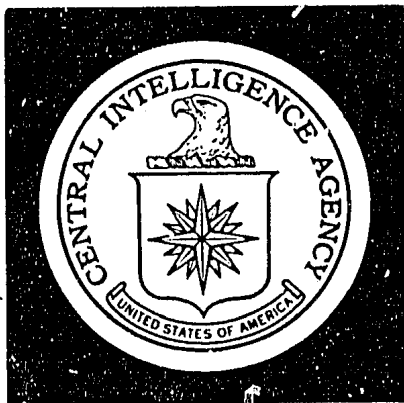
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Peru After the Earthquake

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20 July 1970
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
20 July 1970

INTELLIGENCE MEMORANDUM

Peru After the Earthquake

Summary

With President Juan Velasco firmly in control, Peru's military government is moving ahead with its plans to "completely restructure" the country's economic, political, and social institutions despite the disastrous earthquake that struck Peru on 31 May. There have been significant political and economic consequences of the disaster, but President Velasco insists that the "revolution" has not been detoured. In fact, by-products of the earthquake, such as the rallying of the public behind the government, improved relations with the US, and the influx of foreign money for disaster relief, may give the "revolution" a needed shot in the arm.

NOTE: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of Economic Research, the Office of National Estimates, and the Directorate for Plans.

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Background

1. The Peruvian military came to power with the general outline of what it wanted to accomplish firmly in mind and is moving, if somewhat haltingly, toward its goal--the complete restructuring of Peruvian institutions. Institutional changes are necessary, according to Velasco, in order to produce a more equitable distribution of wealth and to overcome the obstacles to modernization. The expropriation of the holdings of the International Petroleum Company (IPC) constituted the first step toward reducing the overwhelming influence of the US over Peru's economy. It also served to generate the nationalism that has been the basic tool used by the government in implementing its "revolution."

2. The traditional political and economic elite was another and perhaps more important early target of the Peruvian military. The failure of the oligarchy to use its money and influence to encourage modernization was seen by the military as the primary cause for the deplorable plight of the masses of urban and rural poor. Thus, the wrenching of political and economic power from the elite was another primary goal of the "revolution." The comprehensive agrarian reform law, promulgated with great fanfare in June 1969, was the first step toward that objective. The restrictive press law issued in December 1969 was another, in that it provided the government with a means of controlling the oligarchy's mouthpiece and of reducing criticism of government programs.

3. Military unity, the sine qua non of the Peruvian armed forces, has enabled the government to move with a seeming singleness of purpose toward eliminating foreign and oligarchic dominance over the country's political and economic affairs and bringing about the industrialization of Peru and a more equitable distribution of wealth. Most of the clashes of interest that have occurred within the government have been over the pace and timing of the revolution rather than its substance or objectives. President Velasco, a tough-minded and

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pragmatic general, has adapted very well to the role of politician. He has compromised at times, but has remained adamant on those issues he believes essential to the revolution. At the same time, he has succeeded in neutralizing potential opponents within the military and now appears to be firmly in control. Only a serious domestic setback--prolonged economic deterioration or widespread public disorder, for example--could jeopardize his hold on power.

Political Situation

4. President Velasco and the Peruvian military so far have been content to rule without organized civilian political backing. The military and APRA, Peru's only mass-based political party, have been blood enemies since the 1930s, and there is virtually no chance that an alliance between the two will be formed. A few APRA leaders have advocated working with the military, particularly because it has taken over many of APRA's programs. But both the party leaders and the military have apparently found such an alliance abhorrent despite the obvious advantages it would have for both.

5. In its eagerness to eliminate APRA as a potential political threat, the military has accepted and even encouraged the qualified support of the Communists, as well as Communist efforts to wrest control of the Peruvian labor movement from APRA. The Communist-dominated General Confederation of Peruvian Workers (CGTP) has grown rapidly in the past two years, and now is beginning to rival the APRA confederation in influence, although not in numbers. The government has encouraged the growth of the CGTP by granting concessions in labor disputes when the CGTP is involved and denying them when APRA is involved. The Communists have also sought to gain control of the Committees for the Defense of the Revolution (CDR), a recently organized mass-oriented movement supported and probably sponsored by the government.

6. The Communists' open efforts to organize and control the CDRs and the radically leftist

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orientation of Expreso, the newspaper expropriated by the government and turned over to a workers' cooperative, began to arouse considerable public attention, and signs of dissension were increasing in the traditionally anti-Communist armed forces. This apparently prompted President Velasco in March 1970 to stage a public showing of military solidarity with his government. He stressed that his government was nationalist and revolutionary, but that it was definitely not Communist and would never allow any foreign ideology to gain control in Peru. His rejection of charges of Communist penetration of the government and the announcement of steps to control the CDRs has quieted the dissension and charges of growing Communist influence. But it is still too early to judge the effectiveness of these efforts to keep the Communists on the sidelines.

Economic Reforms

7. The disastrous earthquake of 31 May has prompted a further rallying behind the government and President Velasco at a time when some of the government's most far-reaching economic reforms had just been announced. President Velasco has stated that "the revolution will not be held up." He may plan to use this period--when, as he says, "even the political parties have forgotten their partisan interests"--to push through reforms that in other circumstances might stir loud dissent. Indeed, the disaster may in a sense prove to be a stroke of good fortune in terms of progress in the revolution. Money flowing into Peru for reconstruction may support the implementation of some of the reforms, such as those in agriculture, and the earthquake could provide a convenient scapegoat for any economic problems that result from the reforms. In addition, reconstruction of the devastated areas will provide some relief for the depressed construction industry and aid in dealing with the growing unemployment problem.

8. That the government intends to move ahead with its "revolution" was clearly demonstrated in April and May of this year. In April, the Velasco

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government unveiled new legislation intended to give the Peruvian state broad new powers in areas hitherto the preserve of private (largely foreign) investors. A new mining law established, among other things, that the marketing and pricing of all Peruvian minerals would be performed by the state. The mining law also served notice that the state would become involved in the refining of minerals--particularly copper. The mining law was complemented by a law governing the fishmeal industry that set out provisions for state participation in the marketing of that "national resource." At approximately the same time, a draft of a proposed new law governing industry was circulated within the business community. This comprehensive proposal--which, in spite of expectations for the past month, has not yet been promulgated--would establish guidelines for all industry, both foreign and domestic. Heavy industry is named as the preserve of the state, and industrial priorities are set, along with incentives to attract private investment into areas designated by the government. The draft that was circulated also proposes restrictions on foreign business but guarantees the foreign investor the recovery of his capital investment and a "reasonable" profit within a fixed number of years. The investment must then revert to Peruvian control, meaning at least 51 percent Peruvian ownership.

9. In May, strict new foreign exchange controls were enacted. Under the new law Peruvian holders of dollars were required to turn them in for soles. This requirement applies to dollar accounts both in Peru and abroad. Dollars tied up in foreign holdings of securities must also be declared. The intended effect of this law is to return to Peru money being held outside the country in order to force Peruvians to invest it in the industrialization and modernization of the country.

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[redacted]
[redacted] Many wealthy Peruvians, required by the May exchange controls to repatriate their money, will now be required to invest in Peru, as the government has been alternately threatening and pleading with them to do, or to lose their excess holdings.

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10. As noted above, the government will, in all probability, move ahead with the reforms despite the earthquake, although its program may be temporarily delayed while its time and attention are focused on aiding the stricken area and it seeks additional foreign assistance. The promulgation of industry law has been postponed, and the currency changeover, if it is implemented, probably will be put off for a while, as well. One of the beneficial side effects of the earthquake is that the debt refinancing, which had been in doubt since the IMF cancelled Peru's drawing rights following the promulgation of the new exchange controls, now seems to be moving rapidly ahead.

Foreign Relations

11. US-Peruvian relations have been slowly improving since reaching their low point in mid-1969 when the controversy over the expropriation of IPC was at its height. This gradual improvement was given an important assist by the US relief efforts following the earthquake. The general receptivity to Americans in Peru that resulted could contribute to closer personal relations between officials of the two countries. Mrs. Nixon's recent visit was highly successful in this regard. But in spite of the prospect of an improved atmosphere for bilateral discussions, it is unlikely that current basic outstanding issues--such as Peru's failure to pay compensation for the ICP expropriation and the differences resulting from the Peruvian claim to 200 miles of territorial waters--will move perceptibly closer to resolution. On the other hand, chances are better now than before that future differences will be worked out and crises avoided.

12. The earthquake has also resulted in distinct improvement in the Cuban image in Peru. Castro was prompt in sending disaster relief to the

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stricken area and twice even sent his health minister to Peru to coordinate the relatively large Cuban relief effort. Nevertheless, Peru is not likely soon to establish diplomatic or direct economic relations with Cuba unless another Latin American nation were to take the initiative.

13. The tardy, but dramatic, Soviet airlift of relief supplies will certainly draw considerable attention in Peru, and there is no doubt that the materials being furnished by the Soviet Union are needed. Peru's leftist press, which for more than a month could do little more than play down US assistance, is giving great publicity to the 65-plane spectacular. The propagandist impact of the belated Soviet response to the Peruvian disaster will probably not suffice to counteract the good-will generated by the US. The Peruvian Government may, however, regard this expression of Soviet interest as coming at a particularly fortuitous time--just when the country is negotiating with Western sources for large-scale financing for reconstruction of the devastated areas. Only if the Soviet Union involves itself in a substantial long-term reconstruction effort will it be able to recoup completely the prestige lost in its delay in sending even condolences to the Peruvian President.

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